

Reasonable Compensation

Corporate officer/shareholder or member of a manager-managed LLC that provide services to their company and receive remuneration from the company should report reasonable compensation for the services provided.

Remuneration received by the officer/shareholder or LLC member for services provided to the company can come in the form of the following:

1. Reported wages as defined in the 2007 MCA 39-51-201 (24) (a);
2. Loans to the officer/shareholder or LLC member unless the loan is to be repaid under a written schedule [ARM 24.11.2501 (1) (f)];
3. Distributions/draws taken for services performed, even though designated as profits or dividends [ARM 24.11.2501 (1) (g)]; and
4. Third party sick pay when the employer pays the insurance premium [ARM 24.11.2501 (1) (h)].

In determining reasonable compensation for the officer/shareholder or LLC member, the following factors are used, if available:

1. The qualifications and role in the company including the hours worked, position in the company, duties performed, size of the company and the general economic conditions of the area.
2. Comparison of reported compensation with compensation paid by similar companies for comparable services. The best resource is the State Occupational Employment and Wage Estimates which can be found at www.ourfactsyourfuture.org.
3. Review of the company's wage policy for all the company's employees.